No. 94-1495

APR 2 0 1995

OFFICE OF THE CLERK

In The

Supreme Court of the United States

October Term, 1994

WINBACK AND CONSERVE PROGRAM, INC., and ALFONSE G. INGA,

Petitioners,

v.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The Court Of Appeals For The Third Circuit

REPLY TO BRIEF IN OPPOSITION

H. Curtis Meanor
Counsel of Record

Amy B. Wagner
Podvey, Sachs, Meanor, Catenacci, Hildner & Cocoziello
One Riverfront Plaza
Newark, New Jersey 07102
(201) 623-1000
Counsel For Petitioners

Of Counsel:

Charles H. Helein, Esq.
Helein & Waysdorf
1850 M Street, N.W.
Suite 550
Washington, D.C. 20036

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

1 PP

BEST AVAILABLE COPY

REPLY TO OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

The Third Circuit's opinion is wrong for the following reasons:

1. It imports common law doctrines of vicarious liability into the Lanham Act which are inconsistent with the statutory text.

   Precedent Ignored: Central Bank of Denver v. First Interstate Bank of Denver, 114 S.Ct. 1439 (1994).

2. It adopts a foreseeability test for the imposition of vicarious liability under the Lanham Act which has previously been rejected by this Court.

   Precedent Ignored: Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982).

3. It expands the scope of liability under the Lanham Act to an extent that is equal to, or even greater than, that imposed under the copyright act.

   Precedent Ignored: Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

   In conflict with: Banff Ltd. v. Limited Inc., 869 F.Supp. 1103 (S.D.N.Y. 1994).

4. It holds a reseller of long distance telecommunication service *strictly liable* for the allegedly infringing actions of its independent contractor sales representatives, absent any infringing conduct on the part of the reseller.

   In conflict with: Hard Rock Cafe Licensing Corp. v. Concession Services, Inc., 955 F.2d 1143 (7th Cir. 1992); *Minimaid Services Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516 (11th Cir. 1992).

Without question, the Third Circuit's opinion represents an unprecedented expansion of liability under the Lanham Act. The split among the circuits is real. The Petition for a Writ of Certiorari should be granted.

LEGAL ARGUMENT

What is most interesting about AT&T's brief in opposition is not what it says, but what it does not say. AT&T does not dispute that the Court of Appeals' decision broadens the scope of liability under the Lanham Act, but rather argues that it does so in a manner consistent with this Court's opinion in *Central Bank of Denver v. First Interstate Bank of Denver*, 114 S.Ct. 1439 (1994). AT&T argues that the Third Circuit did not expand the scope of prohibited conduct, but simply decided "on whose shoulders to place responsibility for conduct *indisputably proscribed* by the relevant statute" (Respondent's Brief at p.8) (emphasis in original). However, by deciding on whose shoulders to place responsibility for conduct prohibited by the Lanham Act, the Court was making a policy judgment, not a legal finding. This is precisely the sort of legislating from the bench which this Court sought to discourage in *Central Bank*.

AT&T likewise does not dispute the District Court and Court of Appeals' finding that neither Inga nor Winback engaged in any infringing activity. It is therefore undisputed that Winback could not be liable on a theory of contributory infringement. Thus, the vicarious liability imposed by the Third Circuit is liability without fault, and is not dependent upon a finding of willful blindness or some form of contributory infringement on the part of the principal. This clearly goes further than any circuit has previously held, and stands in conflict with decisions from other jurisdictions.

It is also telling that while AT&T makes several conclusory allegations in its brief to the effect that the facts in *Hard Rock* and *Minimaid* are "worlds apart" and "markedly different" from those before this Court, it fails to articulate the distinction between those Court of Appeals' cases and the one at issue here. In fact, those cases are strikingly similar to the case at bar. *Hard Rock* involved a flea market landlord leasing space to a tenant who was selling infringing goods. *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992). Although the landlord claimed to have implemented procedures for rooting out infringing

activity, he failed to detect the infringing activity by one of his tenants. Because the District Court's finding failed to establish that the landlord "knew or had reason to know" that the tenant was engaging in infringing activity, the Court declined to hold the landlord vicariously liable. *Id.* at 1150.

Similarly, *Minimaid* involved the issue of whether a franchisor may be held liable for the infringing behavior of one of its franchisees. *Minimaid Services Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516 (11th Cir. 1992). The Court, relying on this Court's analysis in *Inwood Laboratories*, held that the test for contributory infringement was not whether the franchisor adequately supervised the franchisee, but whether the franchisor "intentionally induced infringing acts or actively participated in any infringing scheme." *Id.* at 1522.

In both those cases, the Court of Appeals declined to hold the landlord/franchisor liable for the infringing actions of its tenant/franchisee **in the absence of any contributory infringing behavior on the part of the landlord/franchisor**. The relationship between a landlord and a tenant, a franchisor and a franchisee, a consignor and a consignee, a parent and a subsidiary and a manufacturer and distributor can all be likened to a principal-agent relationship. To hold a principal strictly liable for the infringing actions of its independent contractors will unquestionably have an impact on many other businesses which utilize these types of relationships to market their product. A decision with such far reaching effects on the economy is deserving of this Court's review.

The Third Circuit's opinion also expands the scope of liability under the Lanham Act to an extent greater than that imposed under the Copyright Act, contrary to this Court's decision in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (holding that the standards for third party liability in copyright law are broader than the standards for trademark law). In *Shapiro, Bernstein & Co. v. HL Green Co.*, 316 F.2d 304 (2d Cir. 1963) the Court set forth the test for determining whether a parent corporation can be vicariously liable for its subsidiaries' copyright infringement: the parent must have the right and ability to supervise and have a direct financial interest in the profits from the infringing activity. In

Banff Ltd. v. Limited, Inc., 869 F.Supp. 1103 (S.D.N.Y. 1994), the Court examined a parent corporation's liability for the actions of its subsidiary under both trademark law and copyright law. The court applied the *Shapiro, Bernstein* test for liability under the Copyright Act and determined that the parent did not exercise sufficient control over its subsidiary in order to render it vicariously liable. The Court found that in order for a parent to be held liable for the actions of its subsidiary under the Copyright Act, there must be some *continuing connection between the two entities with regard to the infringing activity*. *Id.* at 1110. The Court then turned to liability under the Lanham Act, and concluded that it need not address whether the parent could be held vicariously liable for trademark infringement, because "the required showing of involvement with the infringement would need to be the same or greater than that showing required by copyright law." *Id.* at 1111.

Thus, it is clear that even in the area of copyright infringement, there must be some degree of involvement with the infringement before one can be held liable for the copyright violations of another. It has also been held that the scope of liability under the Lanham Act is narrower than under the Copyright Act. Since the Third Circuit's opinion would allow for vicarious liability under the Lanham Act absent any involvement with the infringement, it has effectively expanded the scope of liability under the Lanham Act to an extent which is greater than that imposed under the Copyright Act. This was error.

Research has revealed no case in which the Court has held an entity vicariously liable for the trademark violation of another absent any contributory behavior on the part of that entity. Thus, while many Courts have referred to the existence of a cause of action under the Lanham Act based on vicarious liability, a careful review of these decisions reveals that in each instance where vicarious liability under the Lanham Act was addressed, the Court declined to find a party vicariously liable for the Lanham Act violations of another absent some wrongdoing on the part of the secondary actor, whether it be active participation, willful blindness, encouragement or

inducement. Even those cases cited by Respondent for the proposition that one may be held vicariously liable for the trademark violations of another in actuality deal with contributory infringement. For example, the Court in *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924) did not impose vicarious liability on the manufacturer of the product for the infringing actions of the retail druggist, but rather held that the manufacturer was guilty by inducing the substitution of the product. The Court there held "[o]ne who induces another to commit a fraud, and furnishes the means of consummating it, is equally guilty and liable for the injury". *Id.* at 530-31. This is primary liability, not secondary liability.

It appears that the confusion regarding vicarious liability and contributory infringement under the Lanham Act is simply a matter of semantics. Respondent argues that there is no precedent to suggest that "contributory infringement is the sole theory of vicarious liability appropriate under the Lanham Act." Respondent's Brief at p.9. However, contributory infringement is not simply a *form* of vicarious liability; they are independent theories of liability. Liability based on contributory infringement arises out of one's contribution to the wrongful act. It is primary, or direct, liability. Vicarious liability, on the other hand, is imputed, indirect, or secondary liability which arises as a result of one's relationship to the primary tortfeasor. Thus, under the Lanham Act, every decision to date has required that there be wrongdoing by a party before liability may be imposed. The Third Circuit's opinion in this case goes farther than any other reported decision to date by imposing strict vicarious liability, in the absence of fault, with the only limitation that the infringement be "foreseeable". The decision will inevitably affect all businesses which utilize independent contractors to market their products. The potential for inconsistent verdicts within the federal system is apparent. The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

H. Curtis Meanor
Counsel of Record

Amy B. Wagner
Podvey, Sachs, Meanor, Catenacci,
Hildner & Cocoziello
One Riverfront Plaza
Newark, New Jersey 07102
(201) 623-1000
Counsel For Petitioners

Of Counsel:

Charles H. Helein, Esq.
Helein & Waysdorf
1850 M Street, N.W.
Suite 550
Washington, D.C. 20036
DATED: April 20, 1995